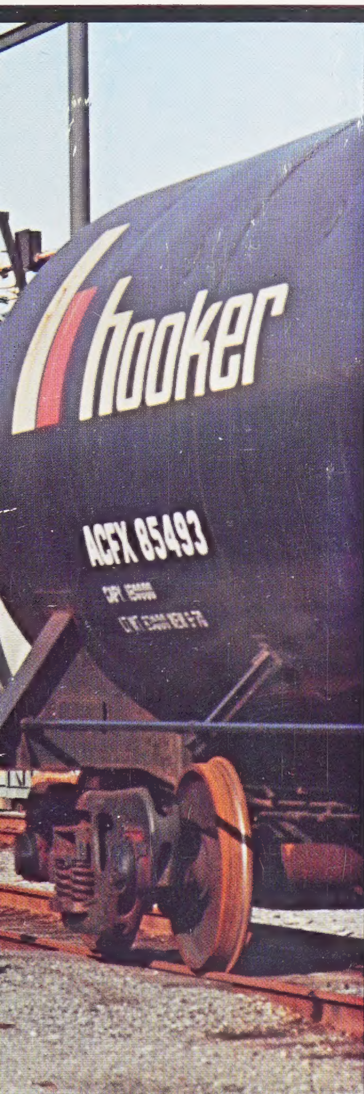
1974 Annual Report



Canadian Occidental Petroleum Ltd

OXY

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Chief Executive Officer

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Chairman of the Executive Committee

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— Oil and Gas Division

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Assistant Secretary

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subsidiary of Occidental Petroleum
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Occidental Petroleum Corporation
Los Angeles, California

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President, Hooker Chemical Corporation
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Hooker Chemicals & Plastics Corp.,
a subsidiary of Hooker Chemical
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President,
Canadian Occidental Petroleum Ltd.,
Calgary, Alberta

***ROBERT A. TEITSWORTH**
Executive Vice-President,
Occidental Petroleum Corporation,
Bakersfield, California

*Members of the Executive Committee

FORM 10-K

The company files an annual report on Form 10-K with the Securities and Exchange Commission of the United States. A copy of the report will be sent without charge to any shareholder upon request. Such requests should be in writing addressed to the Secretary.

The Annual and Special General Meeting of the Shareholders will be held at the Four Seasons Sheraton Hotel, Toronto, Canada on May 6, 1975 at 11:00 a.m.

The company's business activities shown in cover photographs are described on inside back cover.

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Financial and Operating Highlights

FINANCIAL

	1974	1973
Revenues	$45,583,000	$34,221,000
Cash Flow from Operations	$16,299,000	$11,764,000
Per common share	$2.41	$1.74
Net Income	$ 6,440,000	$ 3,925,000
Per common share	$ .95	$ .58
Working Capital	$22,806,000	$11,987,000
Capital Expenditures	$20,868,000	$31,814,000
Long-term Debt	$18,846,000	$21,559,000
Shareholders' Equity	$89,825,000	$65,773,000

PRODUCTION

	1974	1973
Crude Oil and Natural Gas Liquids (barrels)	789,700	831,700
Pipeline Gas (thousands of cubic feet)	18,100,000	19,000,000
Sulphur (long tons)	219,100	241,100
Caustic Soda (tons)	195,100	188,700
Chlorine (tons)	171,200	166,100
Moulding Materials (thousands of pounds)	5,600	7,300
Industrial and Foundry Resins (thousands of pounds)	5,100	5,900
Metals Finishing Chemicals (thousands of pounds)	7,900	7,800

SHAREHOLDERS AND EMPLOYEES

	1974	1973
Number of Common Shareholders	3,573	3,645
Number of Common Shares Outstanding	6,752,241	6,752,241
Number of Employees	439	418

For Canadian capital gains tax purposes, the Department of National Revenue has published a December 22, 1971 Valuation Day price of $9.13 for the common shares of the company.

Corporate Highlights

STRONG FINANCIAL POSITION

Net income increased 64 percent to $6,440,000 or 95 cents per common share. Cash flow from operations increased 39 percent to $16,299,000 or $2.41 per common share. Working capital increased by $10,819,000 to $22,806,000 at year end. Proceeds totalling $17,700,000 from private placement of the company's 9.25 percent preferred shares applied to pay off bank loans.

MAJOR LAND HOLDING

Large land holding of exploratory acreage in Alberta, accumulated at modest cost, enables the company to participate in active exploration plays.

BITUMINOUS OIL SHALE LICENCE

One million acre bituminous oil shale licence acquired in New Brunswick.

GULF COAST DISCOVERIES

Commercial gas reserves established on eleven of the company's 17 lease blocks, offshore Texas and Louisiana. Five permanent drilling and production platforms ordered — the first scheduled to be delivered in 1975. First production is expected to commence in late 1976 or early 1977.

RECORD CHEMICAL OPERATIONS

Record revenues and net profits achieved by Hooker Chemicals division, Durez Plastics division and Oxy Metal Finishing division. Major process conversion completed at the North Vancouver plant, increasing production capacity by ten percent.

PURCHASE OF BRANDON PLANT

Chlor-alkali plant at Brandon, Manitoba, purchased for $4,100,000.

To The Shareholders

ROBERT A. TEITSWORTH
Chairman of the Board

We are pleased to report the most successful year in the company's history. Revenues, net income and cash flow from operations all were at record levels after making full provision for deferred income taxes. Net income amounted to $6,440,000 or 95 cents per common share, and cash flow from operations increased to $16,299,000 or $2.41 per common share. Revenues reached an all time high of $45,583,000.

Two accounting changes were made during the year, resulting in a more conservative statement of the company's earnings than the accounting practices previously followed. The first change makes full provision for deferred income taxes. The second was a switch from the FIFO (first in, first out) to the LIFO (last in, first out) method of accounting for certain inventories.

During the year the company realized a 6.6 percent rate of return on its invested capital. Although this was an improvement over the prior year of 5.3 percent, the low rate of return was far less than the return allowed many public utilities. It is necessary that an exploration company obtain a higher rate of return than a public utility in order to compensate the investors for the higher degree of risk.

The private placement of an $18 million preferred share issue in December enabled the company to prepay the balance of its $19.8 million bank loans due December, 1975. This debt retirement, plus an eleven million dollar increase in working capial, has kept the company in a strong financial position and thus will enable it to take advantage of investment opportunities as they develop.

This report highlights the company's success in establishing commercial gas reserves on eleven of its 17 lease blocks, offshore the United States Gulf Coast. Five permanent drilling and production platforms have been ordered and first production is scheduled to commence in late 1976 or early 1977. This company has been able to obtain interest-free advances of sufficient funds to cover its forecast exploration and development expenditures. In return for these advances, the gas transmission companies received a prior right to purchase the future gas production from the lease blocks at the highest price obtainable under long-term gas purchase contracts in the area determined at the time drilling platforms are set on location.

In addition to our active program in the United States Gulf Coast, the company has continued to maintain its portfolio of exploratory acreage in Canada, most of which was accumulated at a very modest cost. The company now holds one of the largest spreads of exploratory acreage in Alberta, compared to other oil and gas companies. This land holding has enabled the company to participate in numerous exploration prospects, some of which, during the past year, resulted in gas discoveries on company lands.

However, during the past year, there has existed a highly publicized jurisdictional dispute between the federal and provincial governments in Canada as to how oil and gas revenues are to be shared between the petroleum industry and the two levels of government. The increased taxes and royalties imposed by the federal and provincial governments have substantially decreased the funds from improved oil and gas prices that would otherwise have been made available for future exploration. By reducing the industry's

ability to maintain its exploration efforts, these governmental policies are creating a self-imposed energy crisis in Canada.

Obviously, it is in the national interest that federal and provincial fiscal policies, affecting the petroleum industry, be coordinated to ensure that aggressive exploration programs be continued in Canada. Since this affects all Canadians and will largely determine the level of this company's future exploration activity in Canada, it is to be hoped that sensible and equitable agreements, for all parties, can soon be reached.

Our chemical divisions, composed of Hooker Chemicals, Durez Plastics and Oxy Metal Finishing, reported record operating revenues and profits for the year. These divisions together generated more than three-quarters of the company's total revenues. The operations of the Hooker Chemicals division were expanded by the purchase of a chlor-alkali plant at Brandon, Manitoba, and the completion of a major process conversion at the North Vancouver plant which increased production capacity by ten percent.

Although both the Durez Plastics and Oxy Metal Finishing divisions are relatively small segments of our business, they both enjoyed a very successful year and made important contributions to the company's overall profits. Since both Durez Plastics and Oxy Metal Finishing serve a wide range of manufacturing and consumer-oriented customers, they are directly affected by adjustments in the general level of the economy. In view of the current wide-spread recessionary period, we anticipate that the operating results of these two divisions will be adversely affected during 1975. The Hooker Chemicals division, which is by far the largest contributor to overall company revenues and profits, is expected to have another good year in 1975, barring unforeseen cutbacks or shutdowns affecting its pulp mill customers in British Columbia.

The wide range of technically oriented chemical activities in which the company is engaged provide an excellent balance to the natural resource segment of its business. Opportunities for diversification or expansion of both the industrial chemicals and natural resource operations are continually being reviewed and evaluated in order to provide orderly growth for the company.

Environmental protection and employee and public safety continue to be fundamental considerations in all areas of the company's operations.

On behalf of the Board of Directors, we would like to acknowledge the outstanding contribution made by our employees during the past year and state that we consider them to be our most important resource.

Calgary, Alberta
March 21, 1975

Respectfully submitted,

Robert A. Teitsworth

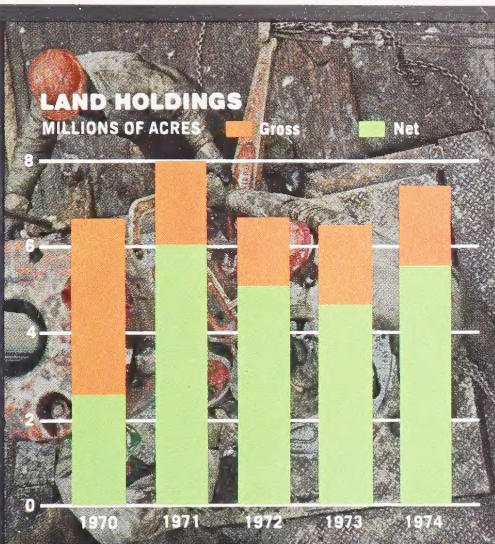
Robert A. Teitsworth
Chairman of the Board

Howard B. Shelton

Howard B. Shelton
President

HOWARD B. SHELTON
President

Oil and Gas Operations



The company has carried on oil and gas exploration in Western Canada since 1958. Commencing in 1972 the company expanded its exploration activities to include the United States Gulf Coast and has invested over $34 million in lease acquisition and exploration costs in that area to date. The company's major land holdings include one of the largest portfolios of exploratory acreage in Alberta, a one million acre bituminous shale licence in New Brunswick and its 17 leases offshore Texas and Louisiana. Although the company has oil and gas production in Alberta, Saskatchewan and British Columbia, its principal producing properties are in the Crossfield field near Calgary, Alberta, where it is the operator of three gas producing units and a major gas processing and sulphur recovery plant. As at December 31, 1974, oil and gas operations accounted for approximately 73 percent of the company's total investment in properties, plant and equipment.

LAND

The company made two significant acreage acquisitions during 1974.

In participation with others it submitted successful bids totalling $66.4 million for five leases offshore Texas and Louisiana comprising 22,500 gross acres. This company's participating interest in these tracts ranges from 4.8575 percent to 6.875 percent, resulting in a net expenditure of $3,868,000 for 1,276 net acres.

In April, a 1,000,210-acre bituminous shale licence was acquired from the Province of New Brunswick. The licence is for a term of six years and grants the company the exclusive right to search and prospect for bituminous shale on these lands together with the right to select up to 50 percent of the acreage as ten-year bituminous shale leases.

The following table sets forth the company's land holdings by area as at December 31, 1974, with comparative figures for 1973:

	1974		1973	
Oil & Gas	**Gross**	**Net**	**Gross**	**Net**
Alberta (a)	4,679,797	4,161,665	4,657,980	4,177,872
Saskatchewan	590,232	169,943	616,773	181,957
British Columbia	8,293	3,065	8,929	3,700
Arctic (b)	391,993	215,999	391,993	215,999
East Coast Offshore (c)	704,338	—	704,338	—
Louisiana Offshore . . .	4,986	659	2,648	530
Texas Offshore	82,131	4,713	61,946	3,566
	6,461,770	4,556,044	6,444,607	4,583,624
Bituminous Shale				
New Brunswick (d) . . .	1,000,210	1,000,210	—	—
Total	7,461,980	5,556,254	6,444,607	4,583,624

Notes:

(a) Includes reservations of which approximately 50 percent may be retained as leases.

(b) The gross acreage includes 175,994 acres in which the company owns a three percent gross overriding royalty.

(c) The company's interest in the 704,338 acres in the East Coast is a 1.75 percent gross overriding royalty.

(d) Up to a maximum of 50 percent may be retained as bituminous shale leases.

The company, over the past five years, has accumulated a large inventory of exploratory acreage in Alberta at modest prices and now has one of the largest landholdings of exploratory acreage in the province compared to other oil and gas companies. During the past year, a number of discovery wells were drilled on these lands by farmees at no cost to the company. In these areas, this company has retained large future participating interests. Several recently negotiated farmout and option agreements ensure that many more exploratory wells will be drilled by other companies on or in proximity to this company's acreage during 1975.

Drilling rig in Alberta Foothills

EXPLORATION

The company's oil and gas exploration is concentrated in the Western Canadian Sedimentary Basin and the United States Gulf Coast. The company participated directly in the drilling of 35 exploratory wells, of which 12 were in Western Canada and 23 were in the Gulf of Mexico. Another 15 wildcat wells were drilled for the benefit of the company by other operators under various farmout and option agreements. In addition, the company commenced an oil shale exploration program on its extensive land holding in the Moncton Basin of New Brunswick, Canada.

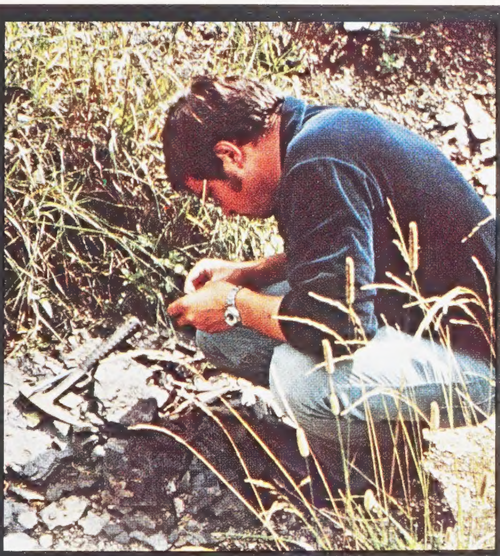
CANADA

The company directly participated in the drilling of 12 exploratory wells in Western Canada. Of these, five were in Alberta and seven were in Saskatchewan. Seven of the exploratory wells resulted in gas discoveries, four wells were abandoned, and one well was awaiting evaluation of a potential gas sand at year end. Several of the more significant projects are described in this section.

The company's 100 percent-owned Bolton 16-11-59-4 W6 well in the Kakwa area of the Alberta Foothills was drilled to 16,916 feet at which point mechanical difficulties precluded any further drilling. However, the Upper Devonian, the main target formation, was evaluated and found not to be capable of commercial hydrocarbon production. Following an evaluation of a shallower porous sand that had yielded small quantities of gas during drilling operations, the well was abandoned early in 1975. Other oil companies will be invited to participate in the drilling of follow-up exploratory wells required to evaluate other seismic delineated reef anomalies on the property.

The company carried out extensive seismic and gravity programs in the Peace River Arch area of west-central Alberta and drilled one well which was abandoned. In addition, it acquired varying interests in 65,800 gross acres (38,600 net acres) in the area as reservations and leases. Further exploration is planned in this area in 1975.

The Harmon Valley reservation near Peace River, Alberta has prospects for Lower Cretaceous oil sands and five stratigraphic test wells are planned for early 1975. Since the indicated oil reserves cannot be produced by conventional methods, research into suitable secondary recovery methods must be carried out before the property can be developed for oil production. A major oil company is presently carrying out such a research project on a similar, nearby oil sands deposit.



Upper Photo: Sampling outcropping of bituminous shale
Lower Photo: Typical drilling and production platform

Other companies drilled 15 exploratory wells on our lands under various farmout and option agreements. Seven of these wells were completed as suspended potential gas wells, one was completed as an oil well, and seven were abandoned. These discoveries have established potentially commercial shallow gas reserves on the company's landholding, of approximately 140,000 gross acres in Northern Alberta. However, further exploratory and development drilling will be required over the next several years in order to determine the extent and size of the indicated gas reserves.

Garrett Research and Development Company, Inc., the research division of Occidental Petroleum Corporation, is currently testing an in situ shale oil process in a pilot plant on oil shale lands it controls in the Piceance Basin of Colorado in the western United States. This technique retorts the oil shale entirely underground, recovering crude bitumen. In anticipation that this, or a comparable, process proves to be feasible, this company acquired a one million acre bituminous oil shale licence in the Moncton Basin of New Brunswick.

Almost immediately upon the acquisition in April, 1974, an exploration program was started with the shooting of 40 miles of seismic and the reprocessing and interpretation of existing seismic data. This was followed by the drilling of a 163 foot stratigraphic core hole on a known occurrence of oil shale within the Albert formation. This core hole confirmed the presence of a good quality oil shale and indicated that further exploration work on the project is warranted. These results were being assessed at year end in preparation for further evaluation work to be performed in 1975.

UNITED STATES

Commencing in 1972, the company has been aggressively acquiring acreage and exploring for oil and gas in federal waters of the Gulf of Mexico. This activity has been carried out through a wholly-owned subsidiary, Canadian Occidental of California, Inc. Through 1974, this California-based subsidiary has participated in six federal sales, placing bids totalling $54.3 million (U.S.) for 30 parcels, and winning 17, for a total expenditure of $31.6 million (U.S.). Working interests vary from tract to tract, depending upon the percent participation in various groups, with interests ranging from as little as 3.6 percent to as high as 20 percent in one instance.

The 17 acquisitions were generally high quality, low-risk parcels which were won in keen competition with industry. Exploratory risk, and therefore bidding risk, on these parcels was considered low because advanced geophysical technology has made it possible in many cases to see future recoverable gas reserves on computer processed seismic lines in advance of bidding or drilling.

Interstate gas utilities, vitally interested in establishing long range gas reserves, have been seeking to provide interest-free loans for tract exploration and development in exchange for a call on future gas reserves discovered. The company has taken full advantage of this opportunity. By committing future gas reserves on all 17 leases to two major gas transmission companies, it has received to date interest-free advance payments totalling $14.3 million (U.S.) and has future pledges totalling an additional $7.3 million (U.S.) receivable during the next two years. These advances should be sufficient to cover all costs incurred during the exploration and

development of the 17 tracts. Through 1974, the company's cumulative exploration and development costs totalled $2,963,000 (U.S.). Advances are scheduled to be repaid, once production commences, over a five-year period from a percentage of the field proceeds.

To year end 1974, the company has participated in the drilling of 37 wells, of which 20 are gas or oil bearing and 17 are dry holes. Of the 17 tracts eleven now are known to contain commercial hydrocarbon reserves. Three are non-commercial, one is not completely evaluated, and two are undrilled. During 1974 alone, the company participated in the drilling of 23 exploratory wells of which 15 resulted in the discovery of hydrocarbons and eight were non-commercial or dry. Five permanent development platforms have been ordered, the first of which should be installed within a few months, with initial gas production commencing in late 1976 or early 1977 pending a pipeline connection.

The company's net proven and probable gas and liquids reserves, before deduction of royalty interests, estimated by company engineers, based exclusively on the limited exploratory drilling performed to date, are 95 billion cubic feet of gas and one million barrels of oil.

The exploratory drilling to date has been limited to that required in order to define the minimal reserves necessary to justify emplacement of permanent drilling and production platforms. Development drilling from the permanent platforms will delineate the true magnitude of each field.

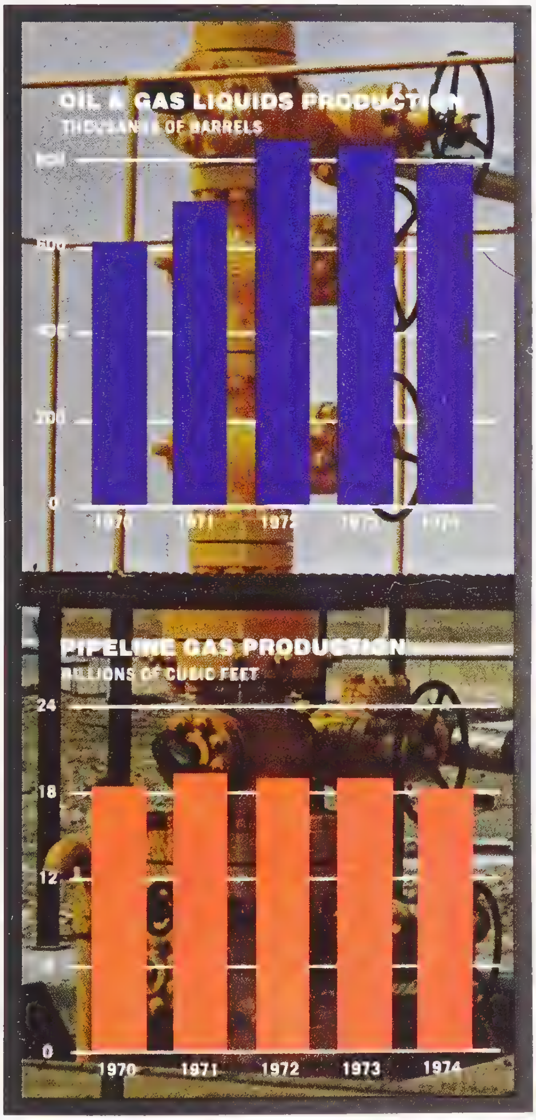
The future price to be received for the company's share of gas has not yet been established. The advance payment agreements provide for the highest price obtainable under long-term gas purchase contracts in the area determined once drilling platforms are set on location. Gas prices have been moving upward since the company's acreage was acquired and must still realize substantial increases before reflecting the true value of the commodity.

Because these gas reserves are located in federal (interstate) waters, they are under the jurisdiction and price control of the Federal Power Commission. On December 4, 1974, the FPC announced a new single uniform base rate for interstate gas sales at 50 cents per Mcf (up from the previous rate of 42 cents per Mcf) with further escalations of one cent per year over the life of the field and further allowances for gathering costs. Thus, without further base rate improvements, the Gulf Coast area price by late 1976, when first production may commence, should be in the range of 52 to 53 cents per Mcf.

In the opinion of Canadian Occidental's management, these forecast prices are unrealistically low. For example, as a result of a recent National Energy Board ruling, Canadian natural gas exported into the United States after January 1, 1975, is priced at $1.00 per Mcf at the border and will likely increase at least 20 cents per Mcf annually. Alaskan North Slope gas delivered to southern California terminals will cost at least $1.50 to $2.00 per Mcf by the time a gas pipeline is constructed.

Further, the Federal Power Commission recognized in August, 1974 that in terms of heating value natural gas, at 51.8 cents per million BTU's, is still substantially underpriced relative to coal at 77.3

Jack-up drilling rig



cents, and fuel oil at $1.56 per million BTU's. Finally, United States intrastate gas, which is not regulated by the Federal Power Commission, and more properly reflects the current market for gas, is currently priced in the $1.25 to $2.00 per Mcf range. The company management is, therefore, optimistic that future interstate gas prices will continue to move upwards to a price more in line with current prices received for alternative fuels as well as intrastate and imported gas.

As budgetary considerations allow, it is Canadian Occidental's current intention to participate in future Gulf Coast offshore sales with the objective of further growth in this unique and potentially rewarding petroleum province.

PRODUCTION AND DEVELOPMENT

The accompanying table shows that production of sulphur, natural gas, crude oil and natural gas liquids declined slightly from the previous year. The company's working interest share of production averaged 600 long tons per day of sulphur, 49.5 million cubic feet per day of gas and 2,164 barrels per day of crude oil and natural gas liquids.

Production	1974	1973
Sulphur (long tons)		
Petrogas plant	156,083	163,516
Peace River plant	58,415	72,831
Other plants	4,629	4,769
	219,127	241,116
Pipeline gas (millions of cubic ft.)	18,099	19,043
Propane (barrels)	127,619	134,350
Butane (barrels)	105,688	112,784
Condensate (barrels)	225,095	247,311
Crude oil (barrels)	331,299	337,259

The company's most important producing area is in the Crossfield field north of the city of Calgary where it has a substantial interest in, and acts as operator of, a major gas processing plant and 52 gas wells. Three of the formations are unitized with the company's working interest therein being 35.02 percent in the Calgary Crossfield Unit, 23.23 percent in the Calgary Elkton Unit and 37.73 percent in the Calgary Basal Quartz Unit. There are 43 gas wells within the unitized area and a further nine wells on lands adjacent thereto in which the company's interests range from 25 percent to 50 percent. No development drilling was conducted in this field during the year as well deliverability was generally adequate to meet sales gas requirements.

In the Greencourt area of Alberta, a development well was completed as a Belly River zone gas discovery on lands in which the company holds a 50 percent interest. The company also participated in the drilling of two development wells in the Wimborne field, one of which was completed as a marginally prospective gas well, and the other was abandoned.

Seven wells were drilled in the Sandhills Block in southwestern Saskatchewan on which the company holds working interests ranging from 25 to 50 percent. These wells were all completed as potential Cretaceous Milk River gas wells but are presently shut in pending favorable market conditions. The company now has interests in 25 shut in Milk River gas wells scattered over this large landholding. The comparatively large capital investment required to bring these wells into production cannot be justified economically

until the Saskatchewan government permits field gas prices to rise substantially above the established area price of 26 cents per Mcf, which is far below comparable Alberta prices of approximately 60 cents per Mcf.

Most of the company's oil producing acreage is in the province of Saskatchewan where it has heavy oil production in the western part of the province and lighter oil production in the south-eastern part of the province. No new oil wells were drilled during the year, and production levels in both areas experienced natural decline.

During 1974 dramatic changes took place in the selling prices of, and royalties and taxes on, oil and gas production. While product prices improved in response to world price increases, provincial and federal government involvement through increased royalty rates and taxes eliminated much of the incentive to expand operations, particularly in Saskatchewan and British Columbia.

A price freeze on petroleum products was imposed by the Government of Canada from September 1, 1973, through March 31, 1974. Effective April 1, 1974, the price of crude oil and condensate was increased by about $2.70 per barrel to $6.50 per barrel as a result of agreement between the Government of Canada and the producing provinces. However, a large part of the revenue gain to the company was offset by a marked increase in provincial royalty rates and increased federal income taxes. It is anticipated that the regulated price for crude oil and condensate will be subject to further negotiations between the Government of Canada and the producing provinces during 1975.

RESERVES

The company's working interest share of reserves, before deduction of royalty interests, were estimated by company engineers to be as follows as of the year end:

Pipeline gas — 335 billion cubic feet of proven reserves after accounting for 18.1 billion cubic feet of production for the year. Probable additional reserves are estimated at 13 billion cubic feet.

Natural gas liquids — 4,577,000 barrels of proven reserves after accounting for 458,400 barrels of production for the year. Probable additional reserves are estimated at 220,000 barrels.

Crude oil — 2,783,000 barrels of proven reserves after accounting for 331,300 barrels of production for the year. Probable additional reserves are estimated at 1,134,000 barrels.

Sulphur — 2,999,000 long tons of proven reserves after accounting for 160,700 long tons of production for the year. Probable additional reserves are estimated at 100,000 long tons. These figures are exclusive of sulphur production at our Peace River plant where 58,415 long tons were produced during the year from gas delivered to the plant by a third party.

GAS PROCESSING PLANTS

The company owns a 30.9 percent interest in, and is manager-operator of, the gas processing and sulphur recovery plant owned by Petrogas Processing Ltd., near Calgary, Alberta. This plant processes raw field gas produced from the Crossfield field for recovery of pipeline sales gas, condensate, propane, butanes and

Photos above and to right: Petrogas plant, near Calgary

sulphur. It has the capacity to process more than 300 million cubic feet per day of raw field gas and is capable, on demand, of producing over 200 million cubic feet per day of pipeline sales gas and 1,500 long tons per day of sulphur as well as substantial volumes of natural gas liquids. During 1974, the plant processed an average daily volume of 250 million cubic feet of raw field gas.

More than 95 percent of the company's natural gas is produced from the Crossfield field and, after processing in the Petrogas plant, about one quarter is sold to TransCanada PipeLines Limited, and the remainder is sold to Westcoast Transmission Company Limited.

Under the gas sales contract with TransCanada PipeLines Limited, the selling price for natural gas was 17 cents per Mcf for the period January 1, 1974, to October 31, 1974. The selling price increased to 24 cents per Mcf on November 1, 1974, and 24.25 cents per Mcf on January 1, 1975. The price will be increased to 28 cents per Mcf commencing November 1, 1975 and is subject to redetermination effective November 1, 1976, and every two years thereafter.

As a result of a renegotiation of the gas sales contract with Westcoast Transmission Company Limited, the gas price was increased from 25.75 cents per Mcf to 60 cents per Mcf effective November 1, 1974. The price will again be subject to redetermination on December 1, 1975.

In September, 1974, the Government of Canada announced that all natural gas export licences were to be amended at year end to establish a border price of $1.00 per Mcf. It was stated to be government policy that the additional revenues will not accrue to the pipeline transmission companies but shall instead be distributed among the producers of natural gas in Canada with whom these pipeline companies have gas purchase contracts. This new government policy is expected to increase the company's gas revenues in 1975.

Installation of a tail gas clean-up facility, originally scheduled for completion at the Petrogas plant during 1974, will be delayed by almost one year because of delays in the delivery of essential components. When completed in late 1975, this unit will improve the sulphur recovery efficiency of the plant to the stringent provincial government guideline of 98 percent. The estimated cost of the tail gas unit is now $4.8 million, and such cost will ultimately be recovered by Petrogas Processing Ltd. from the field gas producers who are charged a processing fee proportionate to their utilization of the gas processing facilities.

The company's Peace River plant at Taylor, British Columbia, recovers sulphur from the acid gas feedstock supplied by an adjacent plant which processes gas from various fields in the Fort St. John area of British Columbia. Sulphur production from the plant declined about 20 percent from the prior year due to a temporary reduction in the volume of acid gas feedstock available for processing during June and July. The plant is expected to operate at its normal production level during 1975.

The company also owns small participating interests in gas plants which process field gas produced from the Wimborne and East Crossfield fields in Alberta. Our share of the sulphur production from these plants totalled 4,629 long tons during the year.

Sulphur Marketing

The company is one of Canada's major producers and marketers of sulphur. It markets sulphur throughout Canada and in the north west and mid-western portions of the United States. A large fleet of rail tank cars is maintained to transport liquid sulphur to North American customers. The company also sells sulphur in offshore markets through its participation in a producer-owned marketing company.

Although sales volumes declined slightly from the prior year, sulphur sales revenues more than doubled to $2,883,000. The following table indicates the 1974 sulphur sales tonnage with comparative data for the previous year:

Share of Sulphur Sales (long tons)	**1974**	**1973**
Petrogas plant	134,508	136,999
Peace River plant	52,923	54,162
Other plants	4,641	4,984
Total	192,072	196,145
Distribution		
North American Sales	103,626	97,882
Offshore Sales	88,446	98,263

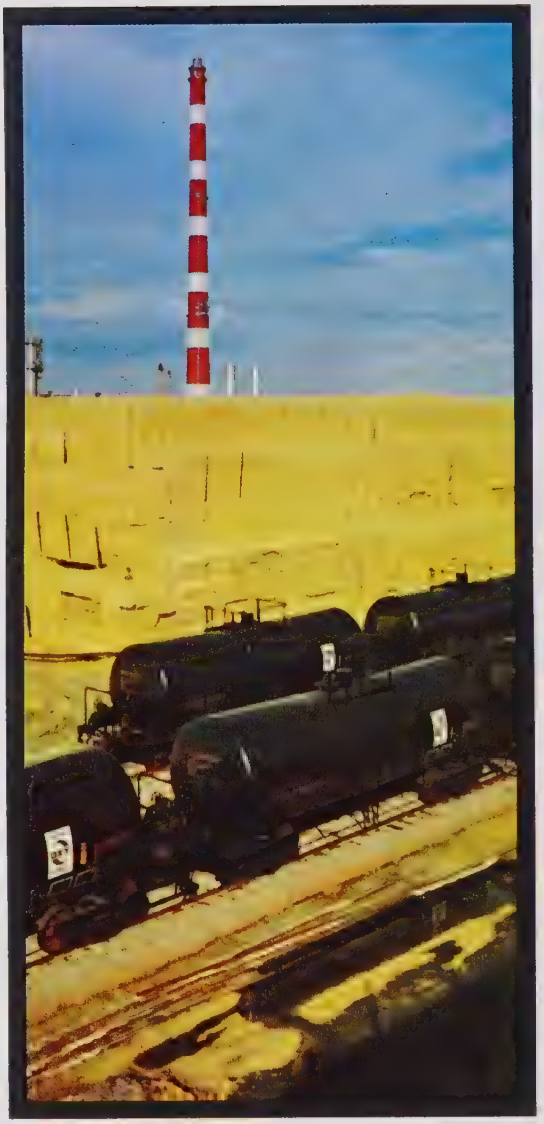
The company posted two price increases for North American sulphur sales during the first half and maintained a price of $25.00 F.O.B. Canadian producing points during the last half of the year. A modest volume increase in North American sales was achieved. During the fall of 1974, the company received delivery of 50 new rail tank cars to improve customer service and enable the company to maintain its share of the expanding North American sulphur market.

The international oil crisis in early 1974, with the attendant shortage of bunker fuel required by ocean cargo ships, was the major contributor to the decreased volume in offshore sales. However, the offshore sulphur market developed strongly throughout the year with product prices improving significantly by year end.

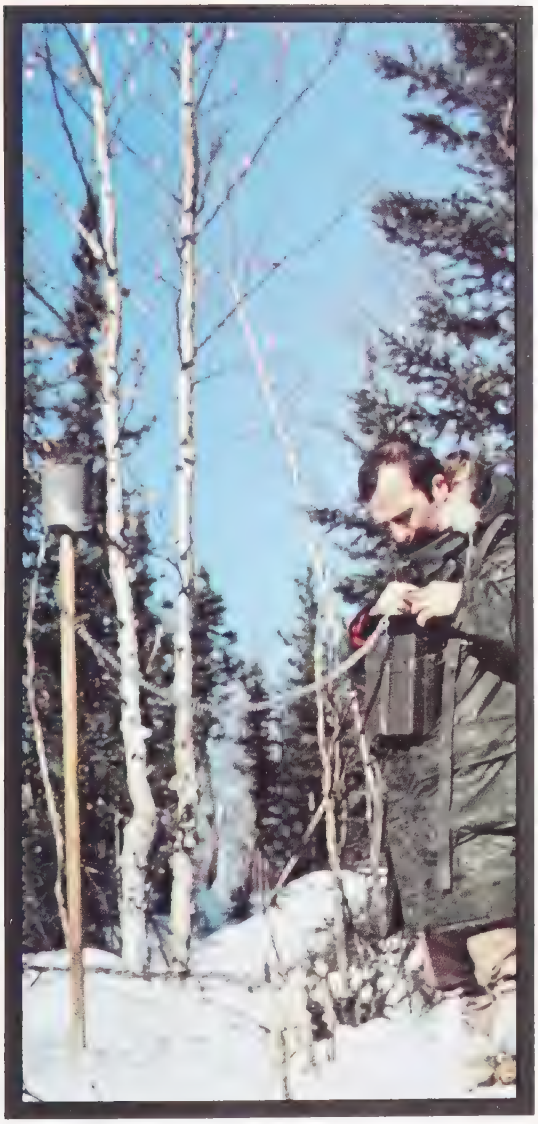
Approximately 90 percent of all sulphur marketed throughout the world is used in the manufacture of sulphuric acid. Historically, sulphuric acid has enjoyed such a wide variety of industrial applications that its consumption is closely related to both the level and rate of change of industrial production. Although the sulphur market could be adversely affected during the near term by the current economic slowdown, the medium and long-term demand for sulphur remains strong.

The company had 432,000 long tons of sulphur in inventory at year end. This inventory is carried on the books at cost which is considerably lower than current market value. Most of this inventory is conveniently located adjacent to rail transportation facilities and can be moved to North American customers as market demand increases.

A major sulphur pelletizing unit will be installed at the Petrogas plant during 1975. When completed in the fall of 1975, the unit will have the capacity to produce 300 metric tons per day of sulphur granules. This dust-free product will be destined primarily for North American industrial chemical and fertilizer markets. The pellets range in size from two to six millimeters and are particularly suitable for direct application to the soil using conventional equipment and spreading methods.



Sulphur stockpile at Petrogas plant



Geophysical survey in Saskatchewan

The objective of the minerals division is to find and develop hard rock mineral deposits. This division is based in Toronto and is staffed by four geologists who supervise operations extending across Canada. The following table summarizes the acreage held in various parts of Canada.

	Percentage Interest	Gross Acres
Yukon	100%	27,778
	19%	12,272
	6.6%	10,452
British Columbia	100%	27,004
	90%	416
Saskatchewan	100%	256,960
Manitoba	100%	1,240
	90%	7,853
Ontario	100%	9,600
Quebec	100%	1,862
	80%	1,559
New Brunswick	100%	440
	7.4%	80
		357,516

During the past year, the Canadian mining industry has been subjected to severe new taxation and royalty regulations on both the federal and provincial levels. These new taxes and royalties will materially add to the cost of existing mining operations and seriously affect the economic feasibility of bringing new mines into production. If the mining industry is to continue its present important contribution to the Canadian economy, then it is essential that the governments adopt fiscal policies which will permit the industry to obtain a reasonable rate of return from new mineral developments. This company is continuing its minerals exploration program in the expectation that the federal and provincial governments will adjust their taxes and royalties as may be required in order to provide the necessary incentives to the mining industry.

In British Columbia, a gold placer deposit was actively investigated with the intent of bringing it into production on a limited basis during 1974. However, a combination of factors including environmental constraints, provincial royalties and federal tax proposals, effectively indicated the property would not sustain an economic operation. Elsewhere in British Columbia, some eight claim groups were subjected to preliminary assessment. Of these, three were drilled with copper mineralization intersected in one group where additional work is planned.

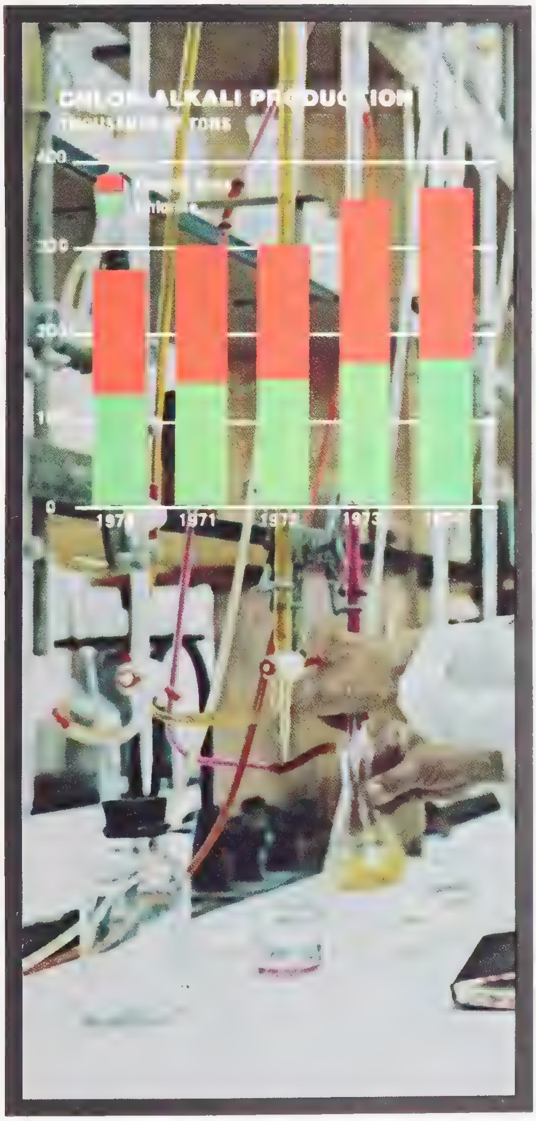
In Manitoba, geophysical surveys have outlined numerous conductors, some of which will be tested during next winter.

Mining claims were acquired in the provinces of Ontario and Quebec during the year. It is planned to test these properties for possible base metal potential during early 1975.

While no economic deposits were found during the year, many of the company's properties were under active investigation and evaluation at year end.

Location Map
Overleaf

Above: Chlorine cells at North Vancouver plant
Top left: North Vancouver chlor-alkali plant
Lower left: Specialty chemicals barge "Metlakatla"



This division comprises three chlor-alkali plants located at North Vancouver, British Columbia; Nanaimo, British Columbia, and Brandon, Manitoba. The principal products are chlorine, caustic soda and sodium chlorate which are used as bleaching chemicals by the pulp and paper industry. The company believes that its plants supply more than half of the market demand for chlor-alkali products in British Columbia and account for approximately one half of Western Canada's production. The company's affiliation with Hooker Chemicals & Plastics Corp. makes available a vast amount of research and technology due to Hooker's worldwide experience in the manufacture of industrial chemicals and in the design and engineering of chemical plants.

The North Vancouver plant, which produces chlorine, caustic soda and muriatic acid, operated at full capacity throughout the year. Since this plant was built in 1957, its production capacity has been increased through various plant expansions, as indicated in the following table:

	Chlorine (tons/day)	Caustic Soda (tons/day)
Original capacity	100	110
1962 expansion	165	180
1965 expansion	195	215
1967 expansion	330	363
1972 expansion	395	435
1974 expansion	445	490

The 1974 expansion, completed in mid-December, involved a major process conversion of the electrolytic cells from consumable graphite anodes to dimensionally stable anodes at a cost of approximately four million dollars. This process conversion increased the productive capacity of the plant by about ten percent, improved efficiency in the use of power and eliminated several environmental problems related to the use of lead and graphite. In addition, a safety venting system was installed that minimizes the possibility of atmospheric contamination in the event of an unexpected plant shutdown due to power failure.

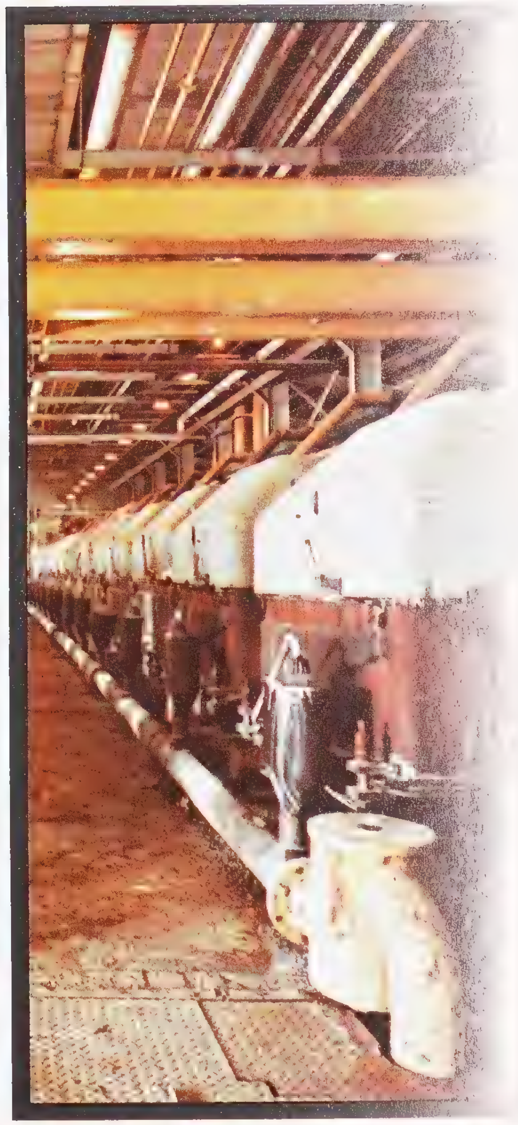
The Nanaimo plant, owned by a wholly-owned subsidiary, Hooker Chemicals (Nanaimo) Limited, operated all year at its normal production capacity of 95 tons per day of chlorine and 106 tons per day of caustic soda. Most of this production is delivered by pipeline to the adjacent pulp mill owned by MacMillan Bloedel Limited. Additional chlorine storage capacity was installed to give greater flexibility in the storage of inventory.

Over 90 percent of the production of the two British Columbia plants is sold as bleaching chemicals to major pulp mill companies in British Columbia. The demand for these products remained high throughout the year and some minor allocation of available production among customers was necessary prior to the completion of the North Vancouver plant expansion.

Most of the chlor-alkali production is shipped to pulp mill customers by the company's own transportation system of railroad tank cars and barges. The specialty chemical barge "Metlakatla", shown on page 14, provides regular service to a pulp mill customer at

ALASKA
YUKON
NORTHWEST
BRITISH COLUMBIA
ALBERTA
SASK
Peace River
Nanaimo
N. Vancouver
Petrogas
Calgary
PACIFIC OCEAN
C
A
N
U.
S.
96 miles to Sabine Lake Terminal
WEST CAMERON SOUTH ADDITION
Water Depth
140'
180'
300'
273
274
442
474
489
Proposed Manta Ray Pipeline System
317
313
LOUISIANA
TEXAS
339
340
SOUTH HIGH ISLAND EAST EXTENSION
330
612
349
SOUTH HIGH ISLAND
563
562
564
582
TEXAS OFFSHORE ACTIVITY
Canadian Occidental Leases:
1973 Purchases
1974 Additions
Gas Fields

Tract No	Successful Bidders	Bonus Pay (Million $)
78	1972 Can Oxy et al	$ 15.1
109	1973 Texaco	$ 78.9
58-78	1974 Chevron-Mobil-Gulf	$ 51.2
57-77	1974 Chevron Mobil Gulf	$117.6
77	1974 Chevron Mobi -Gulf	$ 41.3



Above: Chlorine cells at North Vancouver p
Top left: North Vancouver chlor-alkali plant
Lower left: Specialty chemicals barge "Me

Prince Rupert, British Columbia, and is capable of carrying up to 5,000 tons of caustic soda and 900 tons of chlorine. The rail barge "Hyak King" can carry twelve 100-ton rail cars on the deck and 1,500 tons of liquid caustic soda in below-deck storage. In addition, a fleet of 156 rail tank cars and hopper cars is used for transporting chlorine, caustic soda and salt to customers.

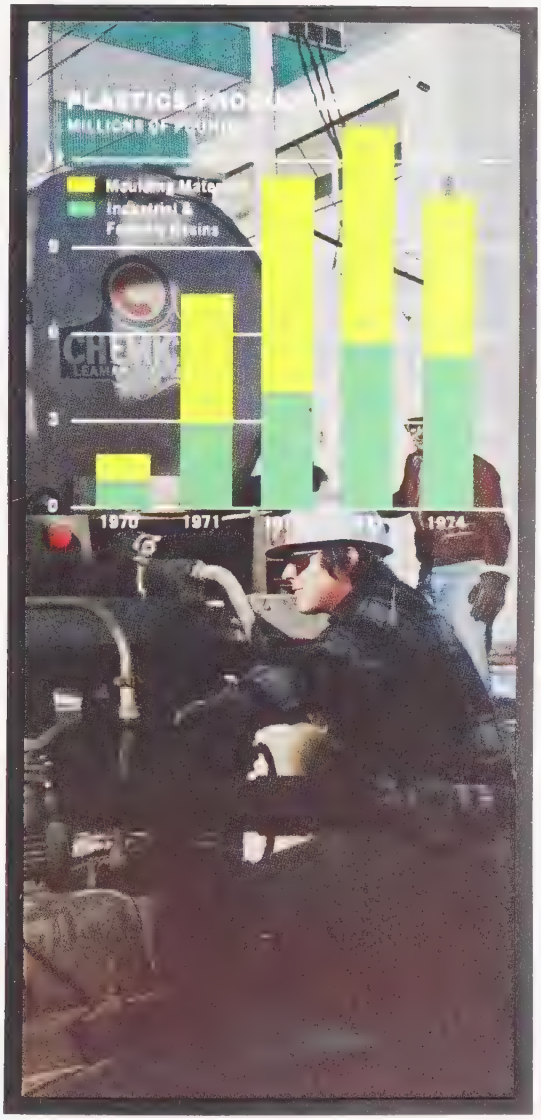
Sales contracts with major customers were renegotiated during the year to provide for substantial increases in the base selling prices of the products and to improve the price escalation clauses enabling the company to recover current and future increases in its manufacturing costs. Consequently, although production volumes of chlorine and caustic soda remained unchanged from the prior year, sales revenues and net income from these operations were substantially improved.

The labour agreements between the company and its hourly-paid employees at North Vancouver and Nanaimo were settled in 1973 and remained in force throughout 1974. Both of these agreements are subject to re-negotiation during 1975.

In March, 1974, the company purchased a small chlor-alkali and sodium chlorate plant located in Brandon, Manitoba, for approximately four million dollars. This plant was immediately leased for a five-year term to Hooker Chemicals Canada Limited, a Canadian subsidiary of Hooker Chemicals & Plastics Corp. As the lease payments offset the mortgage payments to the Manitoba Development Commission, the plant will be fully paid for when the lease expires in May, 1979. During the term of the lease, all pre-tax profits from operation of the plant are to be shared equally by this company and Hooker Chemicals Canada Limited.

Above: Packaging finished product at Durez plant
Left: Brandon chlor-alkali plant

Durez Plastics



A wholly-owned subsidiary, Hooker Chemicals (Nanaimo) Limited, owns and operates a plastics and resins manufacturing plant at Fort Erie, Ontario. This division is a major Canadian manufacturer of phenolic molding compounds and industrial, foundry and polyester resins. These products are marketed under the trade name DUREZ and are used by a wide range of industrial end users including automotive, rubber, foundry, electrical, marine, appliance, plastic fabricators and communication industries.

The Fort Erie plant is a modern manufacturing, warehouse and office facility built in 1970 at an approximate cost of four million dollars. It has an operating and sales staff of 36 employees.

During 1974, phenol, a basic raw material in this manufacturing process, was in extremely short supply throughout North America. As a result, production volumes during the year were about 20 percent lower than in 1973. However, because of strong demand until last November and limited availability, product selling prices were substantially increased.

Although sales volumes declined during the year, sales revenues increased by more than two million dollars or 59 percent to $5,724,000. As a result, this division recorded much improved net operating profits for the year.

Product demand and sales slumped sharply starting in November due to inventory and production cutbacks in the housing, automotive and appliance industries.

Right: Durez plastics plant at Fort Erie, Ontario

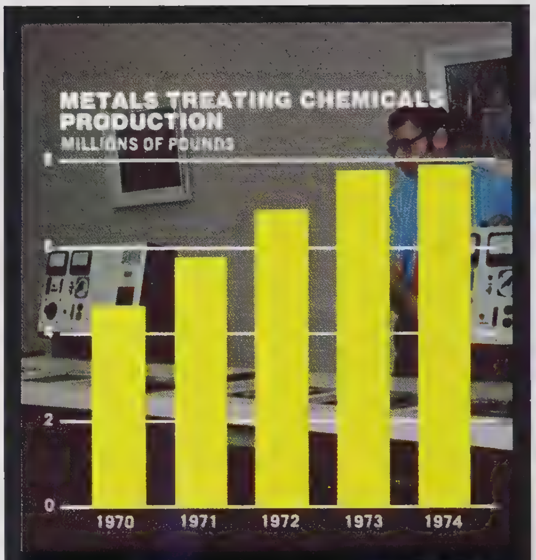
Oxy Metal Finishing

This wholly-owned subsidiary, Oxy Metal Finishing of Canada Ltd., with head office and plant at Rexdale, Ontario, has two separate but complementary divisions, Parker and Sel-Rex. The Parker division has operated in Canada since 1948 as a leading supplier of chemical products for the treating, cleaning and finishing of steel, aluminum and other metals used in the manufacture of automobiles, metal siding, appliances, metal furniture and fixtures, electrical apparatus and other manufactured goods. The Sel-Rex division is a leading Canadian supplier of precious metal electroplating process equipment, chemicals and process technology to the electronic and decorative jewellery industries.

The Parker division manufactures and distributes chemicals for producing zinc phosphate, iron phosphate and oxide coatings on steel, aluminum and galvanized surfaces prior to the application of paint. Its zinc phosphate coatings are also used as a base for lubricants to aid in the drawing of steel tubing, bars, etc. Parker also produces a complete line of cleaners, paint spray booth compounds and paint strippers. This division has access to extensive research and development facilities, customer service and test laboratories, enabling it to provide up-to-date technical know-how to its customers. During 1974, sales volume and operating profits of the Parker division continued to increase over previous years.

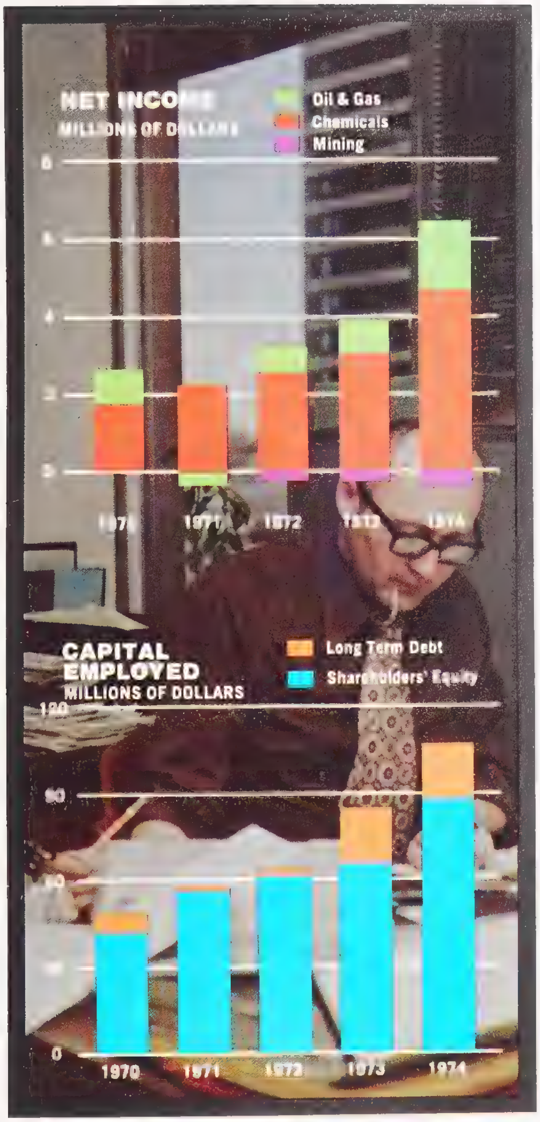
As in each of the previous nine years of its operations, the Sel-Rex division produced and sold increased volumes of gold cyanide salts during the year. In addition, sales of specialized processing equipment designed for the customer's specific needs continued in high demand. The net income for the Sel-Rex division was at a record level.

Sales revenues from the Parker and Sel-Rex divisions totalled \$5,459,000 during 1974, an increase of 42 percent over the prior year.



Above: Parker sales representatives visit customer's plant

Left: Oxy Metal Finishing plant at Rexdale, Ontario



Increased revenues from oil and gas and all chemical divisions of the company contributed to record earnings in 1974. Net income for the year was $6,440,000 or 95 cents per common share, an increase of 64 percent over the restated amount of $3,925,000 or 58 cents per common share for 1973.

The following table sets forth a comparison of earnings by the operating divisions of the company:

	Net Income (Loss)	
	1974	1973 (Restated)
	(Amounts in thousands)	
Oil and Gas	$1,748	$ 849
Mining	(460)	(244)
Chemicals	5,152	3,320
	$6,440	$3,925

Net income for 1973 has been restated to give effect to an accounting change, made in the first quarter of 1974 and applied on a retroactive basis, whereby the company adopted the tax allocation basis of accounting for income taxes relative to all timing differences. As a result of this change, the company now makes full provision for all income taxes that are deferred by virtue of being able to deduct certain costs at a different rate for tax purposes than is used for book purposes. Prior to this change, the company had followed the practice of providing for deferred taxes only on timing differences related to tangible assets and not to exploration and development expenses.

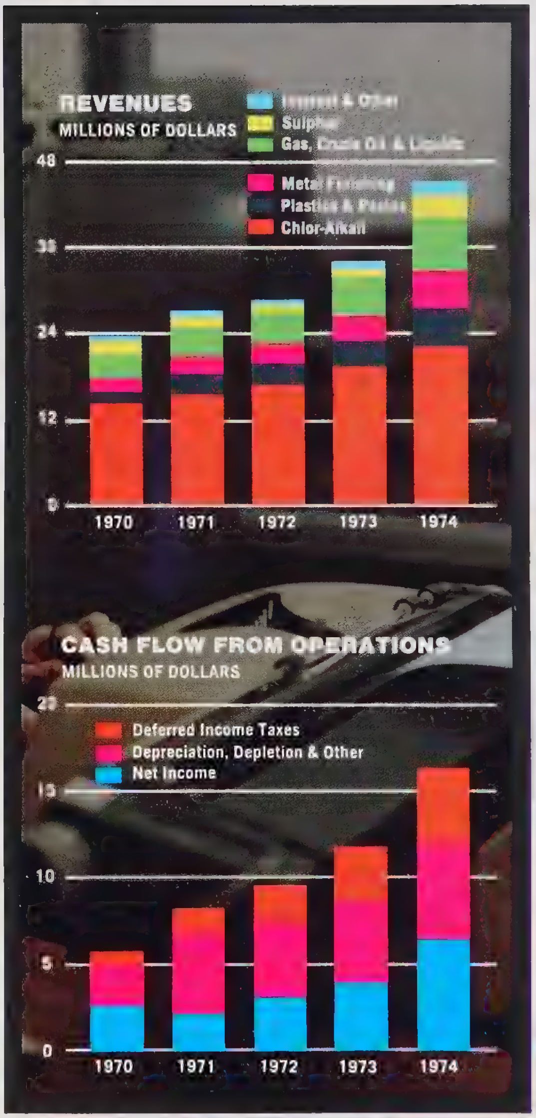
During the fourth quarter of 1974, the company adopted the LIFO (last-in, first-out) method of pricing inventories for raw materials and finished goods, where previously it had used the FIFO (first-in, first-out) and average cost method. The new method is considered to be preferable because it more closely matches current costs with current revenues in periods of price-level changes. Under the LIFO method, current costs are charged to cost of sales for the year. The change does not affect reported results for prior years since the December 31, 1973 inventory, as previously stated using the FIFO and average methods, is treated as the beginning inventory under the LIFO method.

This change in the method of accounting for inventories had the effect of reducing net income for the fourth quarter and the year ended December 31, 1974 by $245,000 (4 cents per common share) and $526,000 (8 cents per common share), respectively. The following table sets forth the earnings summary for the fourth quarter of 1974 compared with same period of 1973 (amounts in thousands except per share amounts).

	Fourth Quarter	
	1974	1973 (Restated)
Revenues	$13,746	$9,393
Costs and Expenses	10,036	7,420
Income Before Income Taxes	3,710	1,973
Income Taxes	1,935	911
Net Income	$ 1,775	$1,062
Per Common Share	$ 0.26	$ 0.16

The effect of the LIFO change on the first three quarters of 1974 is as follows (amounts in thousands except per share amounts):

	1974 Quarters Ended		
	March 31	June 30	September 30
Net income, as originally reported	$1,400	$1,696	$1,850
Effect of change to LIFO method of inventory pricing	(49)	(102)	(130)
Net income, as restated	$1,351	$1,594	$1,720
Per common share:			
Net income, as originally reported	$ 0.21	$ 0.25	$ 0.27
Effect of change to LIFO method of inventory pricing	(0.01)	(0.01)	(0.02)
Net income, as restated	$ 0.20	$ 0.24	$ 0.25



REVENUES

Revenues in 1974 were $45,583,000, an increase of 33 percent over the 1973 amount of $34,221,000. The contributions to revenues are set forth in the following table:

	1974	1973
	(Amounts in thousands)	
Net Sales —		
Sulphur	$ 2,883	$ 1,247
Gas, Crude Oil and Liquids	7,799	5,699
Chlor-Alkali	22,397	19,295
Plastics and Resins	5,724	3,611
Metal Finishing	5,459	3,851
	44,262	33,703
Interest and Other	1,321	518
	$45,583	$34,221

The increase in revenues resulted primarily from higher average selling prices received for all products and rental income received from leasing the Brandon plant to Hooker Chemicals Canada Limited. Seven of the company's large pulp mill customers account for 92 per cent of its chlor-alkali sales revenues.

COSTS AND EXPENSES

Costs and expenses increased 24 percent to $33,226,000 from $26,855,000 the prior year. This increase was directly related to a combination of higher costs for raw materials; increased salaries and wages; higher mineral and property taxes; increased charges for depreciation, depletion and amortization; and higher overall operating expenses as a result of the general inflationary trend.

CHANGES IN FINANCIAL POSITION

The company maintained a strong financial position with working capital of $22,806,000 at the end of 1974. This was an increase of $10,819,000 from $11,987,000 at the end of 1973.

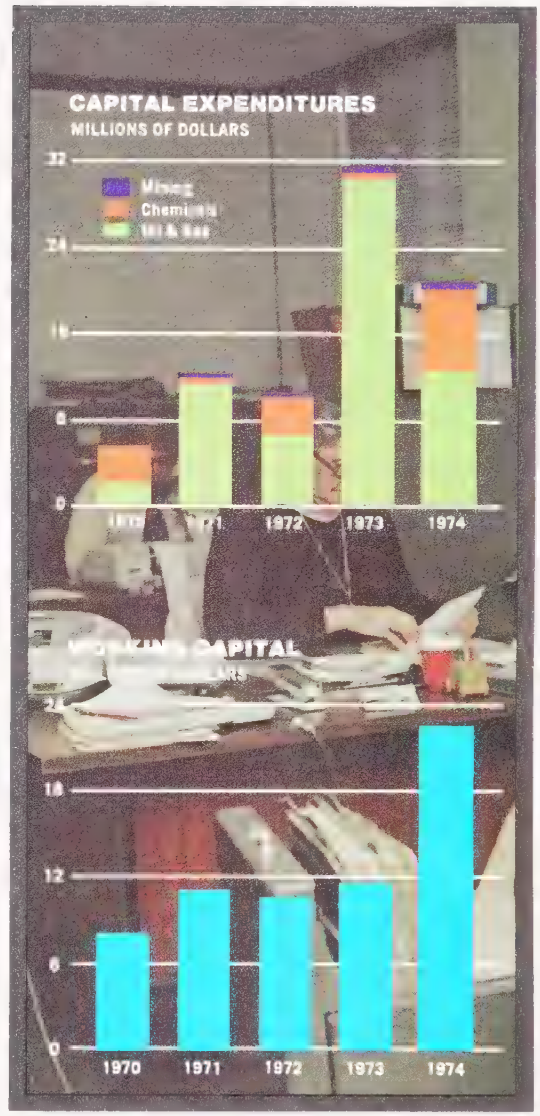
Cash flow from operations amounted to $16,299,000 in 1974, an increase of $4,535,000 or 39 percent over the 1973 amount of $11,764,000.

In December, 1974, the company privately placed 9.25 percent cumulative preferred shares, the net proceeds of which aggregating $17,665,000 were used to prepay the balance of the $19,800,000

(U.S.) term bank loans due December 31, 1975. In addition, the company received interest-free advances totalling $12,751,000 (U.S.) from two pipeline companies to cover exploration and development costs in the Gulf of Mexico, offshore Texas and Louisiana. Also, a term bank loan of $2,676,000 (U.S.) was arranged to partially finance the purchase of four additional tracts offshore Texas. Another financing during the year was a mortgage loan from the Manitoba Development Corporation for $2,840,000 to cover part of the purchase price of the Brandon plant.

Capital expenditures in 1974 totalled $20,868,000 compared with $31,814,000 in 1973. The following table sets forth a summary of capital expenditures for 1974 compared with 1973.

	1974	1973
	(Amounts in thousands)	
Oil and Gas, including lease acquisitions, exploration and development and well, lease and other equipment		
Canada	$ 5,633	$ 3,839
U.S. Gulf Coast	6,458	26,739
Purchase of Debentures of Petrogas Processing Ltd.	465	—
	12,556	30,578
Mining Ventures	547	586
Chemicals		
Purchase of Brandon Plant	4,073	—
North Vancouver Plant Expansion	2,951	385
Other	741	265
	7,765	650
	$20,868	$31,814



WAGES AND SALARIES

At December 31, 1974, the company had a total of 439 employees. The total salaries and wages paid, including the cost of all benefit programs, approximated $6,710,000 during the year.

TRADING RANGE OF COMMON SHARES

The common shares are traded on the Toronto Stock Exchange and the American Stock Exchange, Inc. The following is the trading range of the common shares on each of these exchanges during the past two years:

	Toronto Stock Exchange		American Stock Exchange	
	High	Low	High	Low
1973				
First quarter	15¼	10⅞	15⅛	11
Second quarter	12¾	9¼	13¼	9⅜
Third quarter	13¼	10¾	13	10⅝
Fourth quarter	15¼	9⅜	15⅛	9⅛
1974				
First quarter	14¼	10⅝	14⅞	10⅝
Second quarter	13¼	8½	13¼	8⅝
Third quarter	9	6⅝	9¼	6½
Fourth quarter	9½	5½	10⅛	6¼

No dividends were paid on the common shares during the year.

Five Year Statistical Review

		1974	1973	1972	1971	1970
SUMMARY OF OPERATIONS						
Net sales and other revenues:						
Sulphur		$ 2,883	1,247	961	1,387	1,945
Gas, crude oil and liquids		7,799	5,699	5,076	4,173	3,890
Chlor-alkali		22,397	19,295	16,222	15,639	14,000
Plastics and resins		5,724	3,611	3,088	2,602	1,514
Metal finishing		5,459	3,851	2,669	2,313	1,959
Interest and other		1,321	518	489	599	546
		45,583	34,221	28,505	26,713	23,854
Operating costs and expenses		33,018	26,855	22,762	21,548	18,920
Interest costs accrued		1,614	869	21	230	467
Less: net interest capitalized		(1,406)	(869)	—	—	—
Provision for income taxes		5,917	3,441	2,612	2,527	1,794
Income before extraordinary items		6,440	3,925	3,110	2,408	2,673
Extraordinary items		—	—	—	(253)	—
Net income		$ 6,440	3,925	3,110	2,155	2,673
Per common share		$ 0.95	0.58	0.46	0.36	0.49
OTHER FINANCIAL DATA						
Cash flow from operations		$ 16,299	11,764	9,682	8,241	5,856
Per common share		$ 2.41	1.74	1.43	1.35	1.07
Capital Expenditures:						
Oil and gas		$ 12,556	30,578	6,710	11,475	2,236
Mining		547	586	653	30	—
Chemicals		7,765	650	2,862	708	3,231
		$ 20,868	31,814	10,225	12,213	5,467
Net property, plant and equipment:						
Oil and gas — Canada		$ 38,981	36,585	35,579	34,944	27,295
Oil and gas — U.S. Gulf Coast		36,416	29,958	3,219	—	—
Mining		1,021	977	633	108	—
Chemicals		24,625	19,099	20,496	19,618	20,801
		$101,043	86,619	59,927	54,670	48,096
Working capital		$ 22,806	11,987	10,753	11,252	8,092
Total assets		$138,627	108,612	80,317	73,583	65,455
Long-term debt		$ 18,846	21,559	175	200	7,371
Shareholders' equity		$ 89,825	65,773	61,848	58,738	42,702
OPERATING DATA						
Proven reserves:						
Pipeline gas	MMCF.	335,000	291,000	278,000	293,000	307,000
Crude oil and natural gas liquids	M/Bbls.	7,360	7,255	7,680	7,934	7,340
Sulphur	M/L.T.	2,999	3,153	3,317	3,488	3,832
Production:						
Pipeline gas	MMCF.	18,099	19,043	18,966	19,189	18,355
Crude oil and natural gas liquids	M/Bbls.	789.7	831.7	840.9	692.8	601.5
Sulphur	M/L.T.	219.1	241.1	237.4	257.2	265.6
Caustic soda	M/Tons	195.1	188.7	158.9	160.3	140.8
Chlorine	M/Tons	171.2	166.1	141.3	139.8	125.1
Moulding materials	M/Lbs.	5,640	7,342	7,618	4,463	897
Industrial and foundry resins	M/Lbs.	5,124	5,862	3,924	2,938	824
Metal treating chemicals	M/Lbs.	7,917	7,791	6,860	5,822	4,619
Well Data:						
Net wells — gas		33.5	28.5	27.7	23.0	19.1
Net wells — oil		22.9	22.8	20.6	21.0	12.5
Land holdings: (thousands of acres)						
Gross acres		7,462.0	6,444.6	6,675.4	8,013.0	6,638.7
Net acres		5,556.3	4,583.6	4,950.4	6,022.7	2,579.4
Employees		439	418	401	376	402

Dollar amounts are in thousands, except for the per share data.

Reserves and production of pipeline gas, crude oil and natural gas liquids and sulphur represent the company's gross interest before the deduction of royalties.

Analysis of the Summary of Operations

Comparison of 1973 to 1972

The 20 percent increase in revenues from 1972 to 1973 resulted primarily from higher average prices received for natural gas, crude oil, liquids and sulphur. In addition, increased sales of chlorine and caustic soda were realized following completion of the North Vancouver plant expansion in December, 1972. Sales revenues from plastics and resins and metal finishing chemicals were also higher due to increases in both sales volumes and selling prices.

Operating costs and expenses for 1973 increased by 18 percent over 1972. This increase resulted from additional manufacturing costs in the chemical operations due to higher production volumes, increased charges for depreciation, depletion and amortization and higher overall operating expenses due to the general inflationary trend.

Interest costs increased by $848,000 during 1973 as a result of the $19,800,000 (U.S.) term bank loans entered into in July, 1973. The total interest costs accrued in 1973 were capitalized since all of the interest-bearing debt related to the acquisition of leases in U.S. Gulf Coast, offshore Texas.

Provision for income taxes increased from $2,612,000 in 1972 to $3,441,000 in 1973 due to higher pre-tax earnings, with tax rates remaining relatively unchanged.

Comparison of 1974 to 1973

In 1974, revenues increased 33 percent over the prior year due to higher selling prices for all products and rental income earned from leasing the Brandon plant to Hooker Chemicals Canada Limited.

The increase of $6,163,000 or 23 percent in operating costs and expenses in 1974 resulted from a combination of higher costs for raw materials, increased salaries and wages, increased charges for depreciation, depletion and amortization, higher mineral and property taxes, and a general increase in overall operating expenses due to the general inflationary trend.

Interest costs increased $745,000 or 86 percent in 1974 as a result of additional borrowings and higher interest rates. In keeping with its established accounting practice, the company capitalized that portion of the interest cost relating to its investment in the United States Gulf Coast.

Provision for income taxes increased by $2,476,000 over 1973 as a result of higher pre-tax earnings and amendments to the Canadian Income Tax Act which primarily affected the oil and gas operations. For further details refer to Note 5 of the Notes to the Consolidated Financial Statements.

In 1974, the company adopted the LIFO method of accounting for certain inventories from the previously used FIFO and average cost method. As described in Note 1 of the Notes to the Consolidated Financial Statements, this accounting change reduced net income for the year by $526,000, made up of a $920,000 increase in cost of sales and a $394,000 reduction in the provision for deferred income taxes.

Consolidated Balance Sheet December 31, 1974 and 1973

ASSETS

	1974	1973 (Note 1)
	(Amounts in thousands)	
CURRENT ASSETS		
Cash and certificates of deposit	$ 16,361	$ 5,270
Receivables	9,431	6,481
Inventories (Notes 1 and 2)	4,061	3,174
Prepaid expenses	496	320
Total current assets	30,349	15,245
SULPHUR INVENTORY, in excess of one year's sales volumes (Note 1)	1,012	884
INVESTMENTS AND ADVANCES		
Petrogas Processing Ltd.	5,698	5,048
Other (Note 9)	86	193
	5,784	5,241
PROPERTY, PLANT AND EQUIPMENT, at cost net of accumulated depreciation, depletion, and amortization of $37,145 in 1974 and $32,458 in 1973 (Note 3)	101,043	86,619
DEFERRED CHARGES	439	623
	$138,627	$108,612

The accompanying statement of significant accounting policies and notes are an integral part of this balance sheet.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973 (Note 1)
	(Amounts in thousands)	
CURRENT LIABILITIES		
Payable to affiliates	$ 971	$ 227
Accounts payable and accrued liabilities	5,004	2,819
Income taxes payable	1,063	187
Current portion of long-term debt	505	25
Total current liabilities	7,543	3,258
LONG-TERM DEBT (Note 4)	18,846	21,559
DEFERRED INCOME TAXES (Notes 1 and 5)	22,413	18,022
SHAREHOLDERS' EQUITY (Note 6)		
Preferred shares—$25 par value		
Authorized—1,000,000 shares		
Issued and outstanding—		
300,000 shares—Series A ($7,500,000 U.S.)	7,419	—
420,000 shares—Series B	10,500	—
Common shares—$1 par value		
Authorized—15,000,000 shares		
Issued and outstanding—6,752,241 shares	6,752	6,752
Capital in excess of par value	33,532	33,786
Retained earnings	31,622	25,235
	89,825	65,773
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)		
	$138,627	$108,612

APPROVED ON BEHALF OF THE BOARD:

Robert A. Tittering, Director

Howard B. Shelton, Director

The accompanying statement of significant accounting policies and notes are an integral part of this balance sheet.

Consolidated Statement of Income

For the Years Ended December 31, 1974 and 1973

	1974	1973 (Note 1)
	(Amounts in thousands)	
REVENUES (Note 8)		
Net sales	$ 44,262	$ 33,703
Interest and other	1,321	518
	45,583	34,221
COSTS AND EXPENSES (Notes 8 and 9)		
Cost of products sold (Note 1)	29,347	24,533
Selling and administrative expenses	2,837	2,053
Interest costs accrued	1,614	869
Less: Net interest capitalized	(1,406)	(869)
Other expenses	834	269
	33,226	26,855
INCOME BEFORE INCOME TAXES	12,357	7,366
INCOME TAXES (Notes 1 and 5)		
Current	1,526	535
Deferred	4,391	2,906
	5,917	3,441
NET INCOME	$ 6,440	$ 3,925
PER COMMON SHARE (Note 7)	$ 0.95	$ 0.58

The accompanying statement of significant accounting policies and notes are an integral part of this statement.

Consolidated Statement of Shareholders' Equity

For the Years Ended December 31, 1974 and 1973

	Preferred Shares Par Value of $25	Common Shares Par Value of $1	Capital In Excess of Par Value	Retained Earnings (Note 1)
	(Amounts in thousands)			
BALANCES, DECEMBER 31, 1972				
as previously reported	$ —	$ 6,752	$33,786	$31,510
Adjustment for the effect on prior years as a result of providing for deferred income taxes (Note 1)				(10,200)
BALANCES, DECEMBER 31, 1972				
as restated	—	6,752	33,786	21,310
Net income, as restated (Note 1)				3,925
BALANCES, DECEMBER 31, 1973				
as restated	—	6,752	33,786	25,235
Preferred shares issued				
Series A ($7,500,000 U.S.)	7,419			
Series B	10,500			
Issue expenses of preferred shares			(254)	
Net income				6,440
Preferred share dividends				(53)
BALANCES, DECEMBER 31, 1974	$17,919	$ 6,752	$33,532	$31,622

The accompanying statement of significant accounting policies and notes are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1974 and 1973

	1974	1973 (Note 1)
	(Amounts in thousands)	
FUNDS WERE PROVIDED BY:		
Net income	$ 6,440	$ 3,925
Add amounts not requiring an outlay of working capital—		
Depreciation, depletion and amortization	5,657	5,097
Provision for deferred income tax	4,391	2,906
Other	(189)	(164)
Funds generated from operations	16,299	11,764
Proceeds from—		
Preferred share issue (net)	17,665	—
Long-term debt	17,960	21,409
Sale of property, plant and equipment	401	58
Other	129	—
	52,454	33,231
FUNDS WERE USED FOR:		
Additions to property, plant and equipment	20,403	31,814
Investment in Petrogas subordinate debentures	465	—
Reduction in long-term debt	20,673	25
Preferred share dividends	53	—
Other	41	158
	41,635	31,997
INCREASE IN WORKING CAPITAL	$ 10,819	$ 1,234
Increase (Decrease) in Current Assets—		
Cash and certificates of deposit	$ 11,091	$ (836)
Receivables	2,950	2,037
Inventories	887	(33)
Other	176	146
	15,104	1,314
Increase (Decrease) in Current Liabilities—		
Payable to affiliates	744	(594)
Accounts payable and accrued liabilities	2,185	813
Income taxes payable	876	(139)
Current portion of long-term debt	480	—
	4,285	80
INCREASE IN WORKING CAPITAL	10,819	1,234
WORKING CAPITAL—JANUARY 1	11,987	10,753
WORKING CAPITAL—DECEMBER 31	$ 22,806	$ 11,987

The accompanying statement of significant accounting policies and notes are an integral part of this statement.

Statement of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Occidental Petroleum Ltd. and its wholly-owned subsidiary companies. All intercompany accounts and transactions have been eliminated on consolidation.

It is the company's policy to translate U.S. dollar transactions at historical rates for non-current accounts and at the year-end rate of exchange for current asset and current liability items.

The investment in Petrogas Processing Ltd. (30.9 percent) is accounted for on the equity basis and Canadian Occidental's share of their earnings is included in "Cost of product sold" in the Consolidated Statement of Income. Petrogas Processing Ltd., which is operated by the company, owns the plant and other facilities for the processing of gas from the East Calgary Field. The processing costs are recovered through a service charge to the producers and Canadian Occidental, being a producer, allocates its share of the service charge as a cost of the natural gas sold and sulphur recovered.

Inventories

Inventories are stated at the lower of cost or market. Cost of raw materials and finished product inventories are determined using the LIFO method (See Note 1), and the cost of work in process and materials and supplies are calculated using average and first in, first out respectively.

Depreciation

Depreciation of plant and equipment, excluding items included in the oil and gas full cost pool, is provided for using the straight line method based on estimated useful lives. The company follows the policy of capitalizing property additions and major improvements and betterments at cost. Maintenance and repairs are charged to expense as incurred. Upon the retirement of plant and equipment, the cost is charged or credited to the accumulated depreciation, after considering salvage value or proceeds from sale.

Full Cost Pool

Oil and gas operations are accounted for on a country-by-country basis using the full cost method of accounting. Under this method, all costs of acquiring, carrying (including capitalized interest), exploring for and developing oil and gas reserves in each country are capitalized as a separate pool, including preproduction expenses, production equipment and the cost of non-producing properties. The provision for depreciation, depletion and amortization is computed separately for each pool, using the unit-of-production method based on the estimated proven recoverable oil and gas reserves in each country.

Amortization of Mining Exploration Costs

Mining exploration costs are capitalized as incurred and a regular charge for amortization is made to earnings. When a complete project is abandoned, the capitalized cost is charged to the accumulated amortization. As projects are proven, the capitalized costs will be amortized on the unit-of-production method using the estimated recoverable mineral reserves.

Capitalized Interest

The company follows the policy of capitalizing interest where the related financing can be specifically identified with the purchase or construction of property, plant and equipment including the purchase of mineral rights. Once the facility is complete and commences operations, the interest from thereon will be reflected in earnings.

Income Taxes

The company follows the tax-allocation basis of accounting for income taxes with respect to all timing differences between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Income.

Notes to Consolidated Financial Statements

1. CHANGES IN ACCOUNTING POLICIES

In 1974, Canadian Occidental adopted the tax-allocation basis of accounting for income taxes, as recommended by the Canadian Institute of Chartered Accountants, whereby deferred income taxes are now recorded to give effect to the difference between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Income. In years prior to 1974, tax allocation accounting was not applied to exploration and development expenses. This accounting change has been applied on a retroactive basis and the results for prior years have been restated accordingly.

Also in 1974, the company changed from both the FIFO (first-in, first-out) and the average cost method to the LIFO (last-in, first-out) method of costing out inventories, for book income purposes, relative to raw materials and finished goods. The new method is considered to be preferable because it more closely matches current costs with current revenues in periods of price level changes. There is no cumulative effect of the change on prior years, since the December 31, 1973 inventory as previously stated, using the FIFO and average methods, is treated as the amount of the beginning inventory for the year under the LIFO method. Therefore, restated results for prior years are not applicable.

The effect of these changes in accounting policies is as follows:

	Increase (Decrease)	
	1974	1973
	(Amounts in thousands)	
Effect on—		
Net income—Tax allocation	$ (4,761)	$ (2,800)
—LIFO change	(526)	—
	$ (5,287)	$ (2,800)
Per common share	$ (.78)	$ (.42)
Inventories	$ (920)	$ —
Deferred income taxes—Tax allocation	$ 4,761	$ 13,000
—LIFO change	(394)	—
	$ 4,367	$ 13,000
Retained earnings—Tax allocation	$(17,761)	$(13,000)
—LIFO change	(526)	—
	$(18,287)	$(13,000)

2. INVENTORIES

Current inventories at December 31, 1974 and 1973 are comprised of the following:

	1974	1973
	(Amounts in thousands)	
Finished products	$1,968	$1,688
Raw materials	955	477
Work in process	227	179
Materials and supplies	911	830
	$4,061	$3,174

3. PROPERTY, PLANT AND EQUIPMENT

	1974		1973	
	Cost	Accumulated Depreciation, Depletion and Amortization	Cost	Accumulated Depreciation, Depletion and Amortization
	(Amounts in thousands)			
Chemical plants and equipment	$ 44,158	$19,533	$ 36,477	$17,378
Sulphur extraction plants and equipment	2,481	1,396	2,400	1,350
Mining exploration and equipment	1,286	265	1,355	378
Oil and gas properties including leasehold interests, exploration and development costs and well, lease and other equipment				
—Canada	53,847	15,951	48,887	13,352
—U.S. Gulf Coast Offshore	36,416	—	29,958	—
	$138,188	$37,145	$119,077	$32,458

4. LONG-TERM DEBT

	1974	1973
	(Amounts in thousands)	
Term bank loans ($19,800,000 U.S.), due December 31, 1975 (a)	$ —	$19,804
Term bank loans, secured ($2,676,000 U.S.), due November 22, 1976 (a)	2,644	—
Advance payments, interest free (b)		
—Offshore Louisiana ($7,000,000 U.S.)	6,806	—
—Offshore Texas ($7,356,000 U.S.)	7,275	1,605
Manitoba Development Corporation mortgage loan payable in monthly installments of $59,000 including interest at 10%, to June 1979	2,476	—
Ontario Development Corporation loan, interest free, due or forgivable in 1976.	150	175
	19,351	21,584
Less: Amount due within one year, included in current liabilities	505	25
	$18,846	$21,559

(a) The interest rate for these loans is adjustable during their term to 1% in excess of the London Interbank Offered Rate for U.S. dollars, subject to certain borrower options as to term. At December 31, 1974 and 1973, the rate in effect was 10 3/4% and 11 1/6% respectively. The loans due November 22, 1976 have extension provisions wherein repayment can be deferred to 1980.

(b) Two pipeline companies have advanced funds to cover exploration and development of the U.S. Gulf Coast offshore leases in return for the exclusive right to purchase the company's share of natural gas production. The advances are subject to repayment out of the proceeds of production within five years from the start of production. With respect to offshore Louisiana, if production does not commence within five years from the date of the advance, the total advance payment becomes due and payable.

Under the terms of the company's preferred shares and according to certain notes issued by Occidental Petroleum Corporation, restrictions are placed on the company's working capital position and the ability to incur certain types of funded debt. The company has complied with these restrictions at December 31, 1974 and 1973.

Minimum principal payments on the long-term debt for the five years after December 31, 1975 are $680,000 in 1976, $1,022,000 in 1977, $1,760,000 in 1978, $4,136,000 in 1979, and $2,860,000 in 1980.

5. INCOME TAXES

In determining taxable income, under the provisions of the Canadian Income Tax Act and Regulations, capital cost allowance (depreciation) and exploration and development expenses, may be claimed in amounts exceeding the related amount charged to expense in the financial accounts.

The Federal Budget introduced on November 18, 1974 contained certain new tax proposals affecting the Canadian petroleum and natural gas industry. These proposals limit the deductibility, for income tax purposes, of royalties, rentals, taxes and similar payments to a government in Canada and limit the annual deduction of development expenses, reduce the rate of depletion and revise the rate of taxation of production profits from oil and gas wells.

The income taxes charged in the Consolidated Statement of Income have been computed on the tax allocation basis and for the year 1974 incorporate the proposals set forth in the Federal Budget of November 18, 1974.

The tax expense of $5,917,000 in 1974 and $3,441,000 in 1973 represent effective rates of 48% and 47% respectively of income before income taxes. The following table reconciles the difference between the income tax expense recorded and the expected tax expense obtained by applying the expected tax rate (50% in 1974 and 51% in 1973) to income before income taxes.

	1974	1973
	(Amounts in thousands)	
Expected tax expense	$6,179	$3,757
Effect of—		
Excluding royalties, rentals and similar payments, as a deduction from taxable income	750	—
Depletion allowance for oil and gas	(439)	(157)
Reduced rate of tax on oil and gas production profits and manufacturing and processing income	(623)	(192)
Others, net	50	33
Actual income tax expense	$5,917	$3,441

Based upon current projections of capital expenditures and operations, it is not expected that cash outlays for income taxes will materially exceed the income tax expense with respect to the three fiscal years subsequent to 1974.

6. CAPITAL STOCK AND STOCK OPTIONS

The 9¼% Cumulative Preferred Shares Series A (U.S. dollars) and Series B (Canadian dollars), with dividends payable quarterly, are not generally redeemable by the company until the fifth anniversary (December 18, 1979) of the date of issue thereof. Thereafter the Series A and Series B preferred shares are redeemable by the company at par plus all accrued and unpaid dividends thereon to the date of redemption. The holders of the Series A and Series B preferred shares shall have the right to cause the company to purchase for cancellation the preferred shares at par value plus all accrued and unpaid dividends thereon after the fifth anniversary (December 18, 1979) of the date of issue or whenever the company shall be in default under the rights, restrictions, conditions and limitations attached to the preferred shares.

Options to purchase common shares of Canadian Occidental have been granted to certain officers and employees. Under the stock option plan, options granted are contingent upon continued employment and are exercisable on a cumulative basis over a period of five years from the date of the grant. At December 31, 1974, 45,180 shares were reserved for issuance under outstanding options at prices from $7.00 to $11.38 per share. During 1974, options for 8,600 shares were granted, and options for 23,111 shares were exercisable at prices from $9.75 to $11.38 per share. No options were exercised during 1974 and 1973.

7. NET INCOME PER COMMON SHARE

Net income per common share is based on the 6,752,241 common shares outstanding during the years ended December 31, 1974 and 1973 after giving effect in 1974 to the dividend requirements on the 9¼% Cumulative Preferred Shares. Exercise of all outstanding options would have no material effect on the per share calculation.

8. INTERCOMPANY TRANSACTIONS

Occidental Petroleum Corporation and subsidiaries render advisory and counselling services, of a routine nature, to the company and its subsidiaries consisting primarily of technical, research, administrative and marketing services. The cost of these services amounted to $585,000 in 1974 and $785,000 in 1973. In addition, specialized services, other than of a routine nature, (engineering and technical consultation for new construction, modifications and process improvements) are also rendered and the cost of these services were $170,000 in 1974 and $186,000 in 1973.

The company, through a credit line agreement, charges Occidental Petroleum Corporation with the interest differential between 5½% and the average interest rate on certain of its long-term debt. The principal amount on which this is based varies from time to time and is directly related to an amount the company could otherwise borrow from Occidental at 5½%. The total interest charged to Occidental was $243,000 in 1974 and $106,000 in 1973 and is reflected in the accounts as a reduction in the company's interest costs.

The chemical operations of the company periodically purchase materials from and sell materials to Hooker Chemical Corporation (a subsidiary of Occidental Petroleum Corporation). During 1974, purchases amounted to $3,785,000 compared with $2,337,000 in 1973, and sales were $458,000 in 1974 and $704,000 in 1973. These purchases and sales were at competitive prices.

During 1974 the company completed the purchase of a chlor-alkali plant at Brandon, Manitoba from a third party. Hooker Chemicals & Plastics Corp. had previously assigned to the company its agreement to purchase the plant. The consideration for this assignment was $1,047,000, which was included in the total purchase price of approximately $4,073,000. The plant has been leased to a subsidiary of Hooker Chemical Corporation at a minimum annual rental of $816,000 until May 31, 1979. During the term of the lease the company, in addition to the rental, will also receive one-half of the pre-tax profits from the operations of the plant.

9. DIRECTORS AND OFFICERS

	1974	1973
Number of directors (including past directors)	13	13
Remuneration as directors	$ 24,100	$ 23,100
Number of officers (including past officers)	9	9
Remuneration as officers	$255,400	$218,500
Number of officers who are directors	2	2

Included in receivables for 1974 (other investments in 1973) are advances of $36,000 and $106,000 respectively, to an officer under the executive stock-purchase plan. The sole remedy for non-payment is foreclosure on the collateral, represented by 5,000 common shares of the company, with no deficiency judgment being recoverable. The quoted market value of the collateral at February 7, 1975, approximated $42,000.

10. EMPLOYEE PENSION PLAN

The company has a non-contributory pension plan which covers all employees. This plan was brought into effect on July 1, 1973 and replaced two previous plans which covered only certain employees. The new plan was implemented to provide for improved benefits including past service. The past service costs are being funded over a fifteen year period and at December 31, 1974 the unfunded amount was estimated to be $400,000.

11. COMMITMENTS AND CONTINGENT LIABILITIES

The company may be required under certain conditions to make payments under guarantee and other contractual arrangements in connection with:

(a) Non-interest bearing demand promissory notes deposited with the federal or provincial governments as work performance deposits in respect of exploratory rights. The contingent liability under such arrangements does not exceed $848,000.

(b) Lease agreements in force covering operating, transportation and office facilities but excluding oil and gas, coal and mineral leases. The minimum annual rentals under such arrangements does not exceed $1,800,000 at December 31, 1974.

Auditors' Report

To the Shareholders of
Canadian Occidental Petroleum Ltd.:

We have examined the consolidated balance sheet of Canadian Occidental Petroleum Ltd. (a Canada corporation and an 82% owned subsidiary of Hooker Chemical Corporation) and Subsidiary Companies as of December 31, 1974 and 1973, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Canadian Occidental Petroleum Ltd. and Subsidiary Companies as of December 31, 1974 and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles, which except for the changes as indicated in Note 1 (with which we concur) (a) to the last-in, first-out method of determining certain inventory costs and (b) after giving retroactive effect to the change to tax allocation accounting relating to exploration and development expenses, were consistently applied during the periods.

February 7, 1975
Calgary, Canada

ARTHUR ANDERSEN & CO.
Chartered Accountants

Corporate Information

CANADIAN OCCIDENTAL PETROLEUM LTD.
(a Canadian Corporation)

HEAD OFFICE
1000 Calgary House
550 Sixth Avenue Southwest
Calgary, Alberta, Canada T2P 0S3

KEY PERSONNEL
Head Office
R. W. Archibald, Mgr. Personnel
W. W. Chalmers, Director of Sulphur Marketing
D. C. Gordon, Chief Geophysicist
G. D. Meades, Mgr. Accounting
J. Meronek, Mgr. Purchasing
C. R. Mikkelborg, Mgr. Land
R. H. Orthlieb, Mgr. of Economic Planning
R. T. Peirce, Mgr. Exploration
N. R. Richards, Mgr. Treasury

Hooker Chemicals Division
100 Amherst Avenue,
North Vancouver, British Columbia
L. H. Schnurstein, General Manager

Minerals Division
Suite 801,
161 Eglinton Avenue, East,
Toronto, Ontario
Dr. J. J. Brummer, Manager

Peace River Plant
Taylor, British Columbia
J. Shaw, Plant Superintendent

Brandon Plant,
Brandon, Manitoba
J. A. Ross, Plant Mgr.

SUBSIDIARY COMPANIES
Oxy Metal Finishing of Canada Ltd.
(a Canadian corporation)
Plant and Head Office
165 Rexdale Boulevard,
Rexdale, Ontario
R. I. Peterson - Vice-President & General Mgr.

Hooker Chemicals (Nanaimo) Limited
(a British Columbia corporation)

Chlor-alkali plant
Nanaimo, British Columbia
C. N. Hopkins - Works Mgr.

Plastics plant
Dunlop Street, Fort Erie, Ontario
W. E. Wentzell - General Mgr.

Canadian Occidental of California, Inc.
(a California corporation)

Jefferson Minerals Corporation
(a Delaware corporation)

AFFILIATED COMPANY
Petrogas Processing Ltd.
Balzac, Alberta
W. J. van der Linden, Plant Superintendent

COMMON SHARE TRANSFER AGENTS
National Trust Company, Limited
Calgary, Toronto, Montreal, Winnipeg and Vancouver

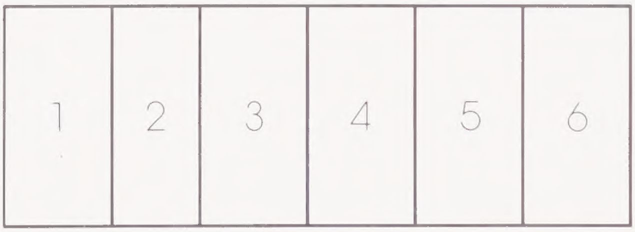
First National City Bank
New York, N.Y.

COMMON SHARE REGISTRARS
National Trust Company, Limited
Calgary, Alberta

The Chase Manhattan Bank
New York, N.Y.

AUDITORS
Arthur Andersen & Co.
Calgary, Alberta, Canada

COMMON SHARES LISTED
American Stock Exchange
Toronto Stock Exchange



COVER PHOTOGRAPHS

1. Sulphur production at Petrogas plant
2. Staking mining claims in British Columbia
3. Sel-Rex precious metal finishing products
4. Hooker Chemicals tank car
5. Petrogas plant, near Calgary
6. Gulf Coast drilling platform

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